



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PPD 730.5.21

October 23, 2001
01-PPD-078(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Restatement and Clarification of Guidance on Auditor Participation on
Integrated Product Teams (IPTs)

Summary

Only activity code 22000, *Should Cost Studies and Integrated Product Team (IPT) Reviews*, should be used for auditor participation on IPTs where the auditor expects to perform an examination on a complete pricing proposal, an examination on a part of a pricing proposal, or apply agreed-upon procedures to a pricing proposal. To control the length and amount of time expended on an IPT performed under activity code 22000, auditors should document the working papers for meeting attendance and exchanges of information with other team members. As required by CAM 1-806c., auditors must issue a report to communicate the pricing proposal examination or application of agreed-upon procedures results. Care should be taken to ensure the all IPT members understand that while the auditor will participate, the contractor remains responsible for preparing the proposal.

Background

Department of Defense (DoD) IPTs are composed of representatives from all appropriate organizations and functional disciplines working together with a team leader to build successful and balanced procurement programs. During 2000, the DoD Inspector General (DoDIG) evaluated DCAA's role in the conduct of IPTs. In 1999, the DCAA Quality Assurance (QA) Division evaluated IPT assignments during the conduct of the President's Council on Integrity and Efficiency (PCIE) evaluation of forward pricing assignments. In addition, the DCAA Executive Steering Committee (ESC) in December 2000 established an action item to analyze how DCAA is accomplishing IPT assignments. The joint Headquarters/regional analysis accomplished in response to the ESC action item focused on customer requests, assignments closed with no report, hours incurred by proposal type and dollar strata within each proposal type, data on elapsed days, data on questioned costs in relation to dollars examined, and data on unsupported costs. As a result of the analysis, the ESC requested that Policy and Plans restate and clarify the guidance on DCAA participation on IPTs performed under activity code 22000. DCAA Contract Audit Manual (CAM) Sections 1-805, *Integrated Product Teams (IPTs) - Background*, and 1-806, *Auditor's Role on DoD IPTs and Related Streamlined Acquisition Initiatives*, provide guidance for DCAA participation on IPTs.

Classification of IPT Effort to Activity Code 22000

DoD's IPT initiatives are directed to the creation of teams throughout the acquisition process. Therefore, some IPTs will be directed toward achieving goals not encompassing evaluations of pricing proposals, for example, monitoring development of an Enterprise Resource Planning system or creation of memoranda of understanding between the government and a contractor. While DCAA assists contracting officers with various types of IPTs, activity code 22000 is to be used only to capture the time incurred in participating on IPTs which call for effort related to auditing a price proposal. Effort of this type may include examinations of complete pricing proposals, examinations of a part of a proposal, or applications of agreed-upon procedures. Contracting officer requests for auditor attendance at meetings and efforts which are not formal IPTs should not be classified in activity code 22000. If the contracting officer only needs DCAA to provide the IPT with information which is in the Field Audit Office (FAO) files, then it may be more appropriate to charge activity code 25000, *Requests for Specific Cost/Rate Information*. Activity code 25000 allows for the auditor to provide any type of forward pricing assistance that can be accomplished in four hours or less. Efforts such as examinations in support of forward pricing rate agreements or restructuring proposals should not be charged to activity code 22000, but should be charged to activity code 23000, *Forward Pricing Rate Agreements*, or activity code 23300, *Restructuring Rate Proposal Audits*. Memorandum for Regional Director (MRD) 01-OWD-054(R), dated September 12, 2001, Subject: Audit Management Guidance on Part-time FAO Financial Advisory Support Services, provides detailed guidance about how IPT hours should be charged.

Setting-Up and Acknowledging Requests to Participate on an IPT

As required by CAM 9-103.1d(3), auditors should talk to the contracting officer when the request for services is received, to obtain a clear understanding of the requester's needs and identify specific areas where DCAA assistance is needed. During these discussions, auditors should establish if the proposal will involve an IPT and exactly what services are required; i.e., an examination of the complete proposal, examination of a part of the proposal, or an application of agreed-upon procedures. The auditor should acknowledge the request for services after obtaining a clear understanding of the contracting officer's needs. The acknowledgment should specifically identify the services that the auditor will provide. For example, if the contracting officer requests application of agreed-upon procedures, the acknowledgment should specifically detail the procedures to be applied. An example of a general forward pricing acknowledgment letter is provided in CAM Figure 4-1-1. Examples of acknowledgement letters for IPTs encompassing examinations and applications of agreed-upon procedures are at Enclosure 1 and will be incorporated into CAM 1-800.

Conducting and Documenting IPT Assignments

Activity code 22000 was established because it was recognized that IPTs are conducted over longer periods of time than activity code 21000, 27000, and 28000 assignments. It is

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important that auditors closely manage activity code 22000 assignments to ensure that the length of time that the assignment is open and the hours expended are a good use of Agency resources. Auditors should discuss the purpose of a meeting with the contracting officer or other team members and determine if the auditor will be able to make a useful contribution. Auditors can set up the framework for addressing meeting attendance during initial discussions with the contracting officer about the auditor role on the IPT. Auditors should try to strike a balance between supporting the customer and expending audit resources, and should be mindful of the audit risk involved. Usually, auditors do not have valuable contributions to the process when the subject of a meeting is technical in nature. In these circumstances, auditors should explain that we generally do not have relevant input for the subject of the meeting, but that we will be available as needed. If the time to attend meetings is expected to be significant, auditors should add steps to the audit program for meeting attendance.

To the extent possible, for continuity and efficient use of Agency resources, keep the same personnel assigned to the IPT. This becomes important as the elapsed days lengthen. It is not a good use of Agency resources when substituted auditors must charge time on the assignment to learn what is going on. Assignments should not be left open indefinitely. If there has been no IPT action for several months, auditors should check with the contracting officer to determine the current status of the IPT and to reverify our role. The working papers should document the contracting officer's verification that the IPT is still active and the expected goals. If resumption of the IPT's activities will be delayed for a significant period, it is desirable to close the current assignment and reopen a new assignment later.

The DoDIG reported that auditors could have documented the working papers better as to the purpose of meetings attended, and the exchanges of information between the auditor and other team members. Accordingly, documentation of the working papers is essential to ensure that only active code 22000 assignments are kept open and that only hours incurred for IPT support are charged to the assignment. GAGAS requires that auditors adequately document the working papers as evidence of the fieldwork accomplished including items such as the IPT charter, team timelines, evidence of team coordination, and the scope and results of the procedures performed. Good documentation safeguards the auditor from any appearance of impairments to auditor independence, and keeps supervisory auditors informed of team activities.

Results of IPT Participation Must be Communicated in a Report

A major issue identified by the ESC analysis was that assignments were closed incorrectly without issuance of a report. CAM 1-806c requires FAOs to issue a report to communicate the proposal examination/evaluation results from the auditor's participation on an IPT. Recently, there have been instances when contracting officers have indicated that they do not want a report. In these instances, auditors should clarify with the contracting officer why a report is not wanted. Generally, customers are concerned about the timeframe required for issuance of a report. Auditors should explain that with the IPT approach, the timeframe required to issue a report is shortened due to the ongoing interaction with the contractor during the IPT

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process. In addition, auditors should explain that GAGAS requires us to issue reports to communicate the results of our work product. Therefore, the auditor will issue a report. Reports will not be issued, however, if the IPT is cancelled prior to receipt of the contractor's completed proposal.

A second area of confusion occurred when only parts of a proposal were examined, or applications of agreed-upon procedures were performed as part of an IPT. Activity code 22000 should be used when forward pricing IPTs are formed to examine complete proposals, parts of a proposal, or perform applications of agreed-upon procedures. CAM 1-806f provides that the report format under activity code 22000 can vary depending upon the services requested by the contracting officer, e.g., a full examination, examination of a part of a proposal, or the application of agreed-upon procedures. Auditors should follow the appropriate reporting guidance for the type of effort performed.

CAM 1-805c requires that the auditor, as a member of the IPT, acts as an independent financial advisor and provides an independent audit opinion. Auditors should ensure that report language does not give the impression that the auditor participated in the IPT with a lack of independence, or that the audit report was a group product rather than solely the opinion of the DCAA auditor. Therefore, auditors should include the following statement in the Subject of Audit section of examination reports:

The contracting officer formed an Integrated Product Team (IPT) to effectively and efficiently manage the subject acquisition. At the request of the contracting officer, DCAA participated as a member of the IPT, but did not prepare the proposal. The proposal and related cost or pricing data [*or information other than cost or pricing data*] are the responsibility of the contractor. Our responsibility is to express an opinion on the proposal based on our examination.

In the Subject of Application of Agreed-Upon Procedures report section use the following language:

As requested by [*requestor organization name*] in a memorandum dated [*date*], reference [*requestor's reference number*], and as discussed subsequently with your office, we applied agreed-upon procedures to the [*subject matter of contractor assertion*] of [*contractor name*]. The contracting officer formed an Integrated Product Team (IPT) to effectively and efficiently manage the subject acquisition. At the request of the contracting officer, as part of the agreed-upon procedures accomplished, DCAA participated as a member of the IPT.

CAM 10-304.1a and 10-1005 will be revised.

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Concluding Remarks

Enclosure 2 is the table from CAM 9-102.1b which summarizes the types of forward pricing services that DCAA offers. We have added IPTs to the table. FAO personnel should direct questions to the region. Regional personnel may direct questions to Ms. Joyce Friedland, Program Manager, Policy Programs Division at (703) 767-2270.

/SIGNED/

Lawrence P. Uhlfelder
Assistant Director
Policy and Plans

Enclosures: 2

1. Pro Forma Acknowledgment Memoranda
2. Chart of DCAA Forward Pricing Services

DISTRIBUTION: C

MEMORANDUM FOR CONTRACTING OFFICER, DEPARTMENT OF THE AIR FORCE,
HEADQUARTERS SPACE AND MISSILE SYSTEMS CENTER
(AFMC), 5555 VELA WAY, SUITE 5555, EL SEGUNDO, CA,
90345-4659

SUBJECT: Acknowledgement of Request for DCAA Participation on an Integrated Product Team for the Development Phase of the F-22 Aircraft, ABC Company

REFERENCE: RFP No. WAFB12-XX-R-0052

We have received your request for services, dated October 11, 20XX, requesting auditor participation on an Integrated Product Team (IPT) leading to the award of a contract for the Development Phase of the F-22. We have established assignment number 1234-20XXJ22000001 to accomplish this audit.

You have requested that DCAA participate in developing the IPT charter and timelines for goal accomplishment, and in providing financial advisory services to include examination of the resulting contractor-prepared pricing proposal. Our auditors will fully participate on the IPT. The auditor's role during the proposal preparation process is to provide real-time feedback on such items as:

- proposal support data expectations,
- proposal estimating techniques, and
- impact of outstanding estimating and accounting system deficiencies on the proposal preparation process and actions needed to correct the deficiencies.

The auditor will begin examining completed proposal parts as they are approved by contractor management and submitted. To maintain auditor independence, the auditor will not assist the contractor to prepare the pricing proposal. The auditor will issue a report to communicate the proposal evaluation results after the contractor submits the formally signed proposal. We anticipate that the issuance of our report will be expedited because of our participation on the IPT.

We have assigned Mr. Joseph Kissinger, Supervisory Auditor, and Mr. Robert White, Senior Auditor, as our IPT representatives. If you require additional audit services, please contact them at (703) 555-1111 or (703) 555-1112, respectively. Our fax number is (703) 555-9999, and our e-mail address is dcaa-faoxxxx@dcaal.mil.

Kalyn LeBlanc
Branch Manager

MEMORANDUM FOR CONTRACTING OFFICER, DEPARTMENT OF THE AIR FORCE,
HEADQUARTERS SPACE AND MISSILE SYSTEMS CENTER
(AFMC), 5555 VELA WAY, SUITE 5555, EL SEGUNDO, CA,
90345-4659

SUBJECT: Acknowledgement of Request for DCAA Participation on an Integrated Product Team and Application of Agreed-Upon Procedures for the Development Phase of the F-22 Aircraft, ABC Company

REFERENCE: RFP No. WAFB12-XX-R-0052

We have received your request for services, dated October 11, 20XX, requesting auditor participation on an Integrated Product Team (IPT) leading to the award of a contract for the Development Phase of the F-22. We have established assignment number 1234-20XXJ22000001 to accomplish this audit.

You have requested that DCAA participate in developing the IPT charter and timelines for goal accomplishment, and in applying agreed-upon procedures on the resulting contractor-prepared pricing proposal. Our auditors will fully participate on the IPT. The auditor's role during the proposal preparation process is to provide real-time feedback on such items as:

- proposal support data expectations,
- proposal estimating techniques, and
- impact of outstanding estimating and accounting system deficiencies on the proposal preparation process and actions needed to correct the deficiencies.

The auditor will begin evaluating completed proposal parts as they are approved by contractor management and submitted. Based on your written request and subsequent discussion with Mr. Kissinger of this office, Headquarters Space and Missiles Systems Center retains sole responsibility for the sufficiency of the procedures agreed upon to accomplish this engagement. DCAA is responsible for completing this engagement in accordance with applicable government auditing standards for agreed-upon procedures.

The agreed-upon procedures we will apply in accomplishing this assignment are as follows:

- ascertaining the basis for the proposed labor rates,
- obtaining and verifying the proposed midpoint of effort and labor escalation,
- comparing proposed base labor rates with current actual labor rates, signed employment agreements, and prior rates of proposed new hires,
- evaluating the estimates for all material components over \$XX using available sources (purchase order history, vendor quotes, inventory prices, DRI indices, decrement factors, etc.)

To maintain auditor independence, the auditor will not assist the contractor to prepare the pricing proposal. The auditor will issue a report to communicate the proposal evaluation results

after the contractor submits the formally signed proposal. We anticipate that the issuance of our report will be expedited because of our participation on the IPT. Our report will only pertain to the application of the agreed-upon procedures. We were not engaged to, and will not, perform an examination, the objective of which would be the expression of an opinion on the subject matter of the report. Accordingly, we will not express such an opinion. Additional procedures, if applied, could bring other matters to our attention that would be reported to you. The report will be prepared using the procedures identified above and any other procedures which may later be agreed upon with you. The information included in our report is intended solely for your use, and should not be used by you or by others for a purpose other than that for which the procedures are established.

We have assigned Mr. Joseph Kissinger, Supervisory Auditor, and Mr. Robert White, Senior Auditor, as our IPT representatives. If you require additional audit services, please contact them at (703) 555-1111 or (703) 555-1112, respectively. Our fax number is (703) 555-9999, and our e-mail address is dcaa-faoxxxx@dcaal.mil.

Kalyn LeBlanc
Branch Manager

Chart of DCAA Forward Pricing Services

Type of Service	Scope of Service	Contractor's Supporting Documentation	Type of Report Statement	Reporting	CAM Cite
Specific Cost Information [Activity Code 25000]	Provide existing data in FAO files, or additional services that can be provided in four hours or less	Cost or pricing data; information other than cost or pricing data	None	Telephone with written confirmation memorandum	9-107
Application of Agreed-Upon Procedures [Activity Code 28000]	Performance of specific procedures agreed upon up front with the customer	Cost or pricing data; information other than cost or pricing data	Disclaimer	Report	9-108 9-207
Cost Realism Analysis [Activity Code 28000]	Evaluation to ascertain potential cost understatement	Information other than cost or pricing data	Disclaimer	Report	9-108 9-311.4
Audit of Part of a Proposal [Activity Code 27000]	Examination of one or more cost elements or parts of a cost element, e.g., rates or the bases but not entire proposal	Cost or pricing data on the part(s) to be examined; information other than cost or pricing data on the part(s) to be examined (cost data only)	Opinion only on the part(s) of the proposal examined	Report	9-108 9-208
Complete Proposal Audit [Activity Code 21000]	Examination of an entire proposal	Cost or pricing data; information other than cost or pricing data (cost data only)	Opinion on proposal as a whole	Report	Chapter 9
Audit of Forward Pricing Rates [Activity Code 23000]	Examination of a contractor's direct and indirect rates (generally in support of forward pricing rate agreements or informal rate recommendations; however, a request to examine an individual price proposal can trigger an activity code 23000, if the results of the rate findings are expected to form the basis for subsequent audit rate recommendations related to other price proposals)	Cost or pricing data; information other than cost or pricing data (cost data only)	Opinion on the rates examined	Report	9-700 9-1200
Integrated Product Team (IPT) [Activity Code 22000]	Auditor effort expended participating on a chartered IPT which culminates in either a full examination of a proposal, examination of a part of a proposal, or an application of agreed-upon procedures	Cost or pricing data; information other than cost or pricing data (cost data only)	Opinion or disclaimer based on the services performed, refer to boxes for activity codes 21000, 27000, or 28000 as applicable	Report	1-805 1-806